

AMENDED IN SENATE MARCH 23, 1998

SENATE BILL

No. 1676

Introduced by Senator ~~Lee~~ Kopp

February 17, 1998

An act to amend Section 53635.7 of, and to add Sections 53601.3 and 53635.3 to, the Government Code, relating to local governmental finance.

LEGISLATIVE COUNSEL'S DIGEST

SB 1676, as amended, ~~Lee~~ Kopp. Local government finance.

(1) Under existing law, the legislative body of a local agency having money in a sinking fund of, or surplus money in, its treasury not required for the immediate necessity of the local agency, may invest the funds in any of several specified investments. Existing law also prescribes investments for the deposit of local agency funds, generally.

This bill would additionally authorize a local agency treasurer, upon approval by the legislative body, to enter into a securities lending agreement, as defined.

(2) Existing law provides that in making any decision that involves borrowing in the amount of \$100,000 or more, the legislative body of the local agency is required to discuss, consider, and deliberate each decision as a separate item of business.

This bill would specify that this requirement does not apply to a securities lending agreement.

Vote: majority. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 53601.3 is added to the Government Code, to read:

53601.3. (a) The authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, the authority of the treasurer to enter into a securities lending agreement.

(b) Upon approval by the legislative body, the treasurer may enter into a securities lending agreement. The agreement shall be conducted with a third party who is registered with the National Association of Securities Dealers or the Federal Deposit Insurance Corporation, provides an indemnified lending program, and has a capitalization in excess of one billion dollars (\$1,000,000,000). The third party agent shall provide indemnification against the borrower's insolvency. The third party agent shall require the borrower to provide, maintain, and mark to market daily, cash collateral equal to not less than 102 percent plus accrued interest of the market value of the loaned securities. All collateral shall be held at a Depository Trust Company, the Federal Reserve Bank, or the participant's trust company. The cash collateral may be invested in repurchase agreements and securities as authorized by the local agency investment policy.

(c) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide cash collateral for the transaction, and both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

SEC. 2. Section 53635.3 is added to the Government Code, to read:

53635.3. (a) The authority of a local agency to invest funds pursuant to Section 53635 includes, in addition thereto, the authority of the treasurer to enter into a securities lending agreement.

1 (b) Upon approval by the legislative body, the
2 treasurer may enter into a securities lending agreement.
3 The agreement shall be conducted with a third party who
4 is registered with the National Association of Securities
5 Dealers or the Federal Deposit Insurance Corporation,
6 provides an indemnified lending program, and has a
7 capitalization in excess of one billion dollars
8 (\$1,000,000,000). The third party agent shall provide
9 indemnification against the borrower's insolvency. The
10 third party agent shall require the borrower to provide,
11 maintain, and mark to market daily, cash collateral equal
12 to not less than 102 percent plus accrued interest of the
13 market value of the loaned securities. All collateral shall
14 be held at a Depository Trust Company, the Federal
15 Reserve Bank, or the participant's trust company. The
16 cash collateral may be invested in repurchase agreements
17 and securities as authorized by the local agency
18 investment policy.

19 (c) "Securities lending agreement" means an
20 agreement under which a local agency agrees to transfer
21 securities to a borrower who, in turn, agrees to provide
22 cash collateral for the transaction, and both the securities
23 and the collateral are held by a third party. At the
24 conclusion of the agreement, the securities are
25 transferred back to the local agency in return for the
26 collateral.

27 SEC. 3. Section 53635.7 of the Government Code is
28 amended to read:

29 53635.7. In making any decision that involves
30 borrowing in the amount of one hundred thousand dollars
31 (\$100,000) or more, the legislative body of the local
32 agency shall discuss, consider, and deliberate each
33 decision as a separate item of business on the agenda of
34 its meeting as prescribed in Chapter 9 (commencing with
35 Section 54950). This section is not applicable to securities
36 lending, as specified in Section 53601.3 or 53635.3.